



AR13

Peyto
Oils Ltd.
1979 Annual Report

Annual Meeting shall be held
Oct. 12, 1979 at the Board
Room of the Montreal Trust
Company, 411 - 8th Avenue
S.W., CALGARY, Alberta.



PEYTO OILS LTD.

Peyto Exploration Inc. 100%
 Giant Reef Petroleum Limited 82%
 Not included in consolidation:
 Enjay Holdings Limited 40%

HEAD OFFICE:

Suite 1650, 633 - 6th Avenue S.W.
 CALGARY, Alberta T2P 2Y5
 Area Code 403-261-5042
 Telex 03-825862
 Call Back Peyto Oils CGY

OFFICERS:

R. T. VANDERHAM — *President*
 JOHN G. McDONALD — *Secretary*
 J. E. MORRISH — *Assistant-Secretary*

DIRECTORS:

DONALD W. AXFORD
 CARMEN W. BYLER
 JEAN GUY CHRISTOPHE LE REUN
 JOHN G. McDONALD
 ROBERT T. M. VANDERHAM
 WILLIAM WOLODARSKY

BANKERS:

BANK OF MONTREAL
 604 - 8th Avenue S.W.
 CALGARY, Alberta. T2P 1G4

REGISTRAR AND

TRANSFER AGENT:

MONTREAL TRUST COMPANY
 411 - 8th Avenue S.W.
 CALGARY, Alberta. T2P 1E7
 15 King Street West
 TORONTO, Ontario. M5H 1B4

AUDITORS:

PEAT, MARWICK, MITCHELL & CO.
 2500, 700 - 2nd Street S.W.
 CALGARY, Alberta. T2P 2W2

STOCK LISTING:

TORONTO STOCK EXCHANGE
 STOCK SYMBOL — PYT

	1979	1978
	\$ 8,134,000	\$ 5,214,000
	5,703,000	3,430,000
	2.00	1.20
	2,034,000	1,110,000
ary items	.71	.39
	4,138,000	1,110,000
	1.45	.39
	(601,000)	350,000
	—	3,050,000
alty)		
	3,497,000	3,460,628
	1,506,000	1,757,478
	5,005,000	5,218,106
ay	894	824
	50,922,000	49,252,000
	14,400,000	13,114,000
	65,322,000	62,366,000
lay	9.3	6.9
	87,000	114,810
	59,000	55,514
	146,000	170,324
	27	25
	18	18
	45	43
	n/a	1,484,139
		177,775
	n/a	11,429,820
		1,111,497
	n/a	12,913,959
		1,289,272
	6,000,000	6,000,000
	160,300	170,300
	2,854,583	2,854,583
	1,244	1,311
	85%	78%
	7%	9%
	8%	13%
ear)	2,187,854	2,409,367
ear)	\$18,521,343	\$19,096,217

alendar 1978)

3rd Quarter

4th Quarter

7.25 - 9.75

7.75 - 9.25

On our cover is PEYTO LAKE located
 27 miles north of Lake Louise on the
 Banff-Jasper highway in Banff National
 Park.



COMPANY PROFILE

May, 1966 — Company incorporated in Alberta as private oil and gas exploration and producing company.

Jan., 1969 — Public share offering, 300,000 shares at \$.75/share.

Nov., 1969 — Private share placement, 300,000 shares at \$2.25/share.

May, 1970 — Issuance of 573,293 shares to acquire 65% controlling interest in Giant Reef Petroleum Limited.

Nov., 1970 — TORONTO STOCK EXCHANGE listing 1,755,293 shares outstanding.

Nov., 1971 — Private share placement 200,000 shares at \$2.00/share.

1971-1972 — Drilling Fund obtained for \$750,000.

Jan., 1973 — Issuance of 383,328 shares to acquire Polaris Oil Ltd. and its subsidiary companies.

Nov., 1973 — Private share placement 350,000 shares at \$6.00/share to Francarep one of the French Rothschild group of companies. Subsequently M. Jean LeReun joined the Board of Directors as their representative.

Jan. 1977 — Drilling fund obtained for \$3 million, granted option to acquire 150,000 shares at \$5.50/share.

Jan., 1979 — Expanded drilling fund above to \$5 million. Option to acquire 150,000 shares at \$5.50 extended to Dec. 31, 1980.

Highlights

	1979	1978	
Financial			
Total revenue	\$ 8,134,000	\$ 5,214,000	
Cash flow	5,703,000	3,430,000	
Cash flow/share	2.00	1.20	
Earnings before extraordinary items	2,034,000	1,110,000	
Earnings per share before extraordinary items	.71	.39	
Net earnings	4,138,000	1,110,000	
Net earnings/share	1.45	.39	
Working capital (deficiency)	(601,000)	350,000	
Long term debt	—	3,050,000	
Operations			
Production and reserves (before royalty)			
Oil and condensate — proven	3,497,000	3,460,628	
Oil and condensate — probable	1,506,000	1,757,478	
Total in barrels	5,005,000	5,218,106	
Average daily production Bbls./day	894	824	
Gas — proven	50,922,000	49,252,000	
Gas — probable	14,400,000	13,114,000	
Total in MMcf	65,322,000	62,366,000	
Average daily production MMcf/day	9.3	6.9	
Sulphur — proven	87,000	114,810	
Sulphur — probable	59,000	55,514	
Total in long tons	146,000	170,324	
Gross wells drilled			
Oil and/or gas	27	25	
Dry and abandoned	18	18	
Total wells drilled	45	43	
Land Holdings			
Canada — Gross acres	n/a	1,484,139	
— Net acres		177,775	
Elsewhere — Gross acres	n/a	11,429,820	
— Net acres		1,111,497	
Total — Gross acres	n/a	12,913,959	
— Net acres		1,289,272	
Share Capital			
Shares (N.P.V.) Authorized	6,000,000	6,000,000	
Shares reserved for options	160,300	170,300	
Shares outstanding May 31, 1979	2,854,583	2,854,583	
Number of registered shareholders	1,244	1,311	
Distribution of shares:			
Canada	85%	78%	
United States	7%	9%	
Europe	8%	13%	
Volume of shares traded (calender year)	2,187,854	2,409,367	
Volume of shares traded (calender year)	\$18,521,343	\$19,096,217	
Stock Symbol — PYT			
Price ranges to nearest half dollar (Calender 1978)			
1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
6.75 - 12.50	7.25 - 8.75	7.25 - 9.75	7.75 - 9.25



Rapidly increasing prices for crude oil and natural gas, especially in the United States, increasing production volumes, and the sale of some of your company's foreign assets have made this year the most profitable to date.

Production volumes, earnings and cash flow reached new highs and our long term production loan was repaid in its entirety. Another milestone for your company was the declaration of its first annual dividend of 25¢ per share.

Exploration activities were maintained at a high level and the results were satisfactory. Increasingly your company is shifting its emphasis to the United States. The prime reason for this shift is Western Canada's increasing surplus of natural gas. This surplus has been at the center of intense

industry and Government discussions and hearings to verify its existence, and to determine if any surplus should be exported. The outcome of these deliberations is important to Canada's more than 500 oil and gas exploration and producing companies, since few companies can continue to explore for gas which does not find a market within a reasonable time.

Another reason for our expansion into the U.S. is the pricing of energy. In Canada at the present time the producer receives \$13.50 per barrel of oil at the wellhead. Canada still exports a small amount of oil which it sells into the U.S. at world prices of $\pm$ \$28 per barrel. The difference in the two prices is collected by the Federal Government in the form of an export tax. The monies so collected by Ottawa are used in part to subsidize the cost of Middle East oil being imported into Canada.

In addition, the Province of Alberta and its oil and gas producers in being forced by Ottawa to accept less than world prices have foregone revenues of approximately \$14 billion since 1974. Critics of Alberta's Heritage Trust Fund conveniently overlook this astounding figure as Alberta's contribution to Confederation.

The result of all this is that Canada enjoys the lowest priced energy in the world. This is wonderful except for the fact that it does nothing for "conservation" of our precious oil and natural gas. Canada's consumption of energy keeps increasing at several percentage points per year despite the fact that worldwide the sources of cheap energy from oil are being exhausted at an alarming rate. Higher prices are the only effective conservation measure to stretch out the available supplies of energy and to bring on stream the more exotic and expensive new sources of fossil fuels such as the tar sands, oil shales and heavy oil recovery schemes. Also the conventional exploration methods call for ever deeper drilling and ever more

expensive exploration tools. Politically, however, the rising cost of oil and gas prices is unpopular and governments have difficulties convincing the electorate that the rise of prices towards world levels is necessary. In Canada the unequal distribution of revenues from the oil and gas industry between the Western Provinces and the Federal Government make for additional political friction. The new Conservative Government in Ottawa will undoubtedly find Energy its most thorny and pressing problem.

In the United States similar political problems abound, however, since early 1979 prices for newly discovered oil and natural gas have been deregulated and allowed to rise to free market levels. "New oil" now sells at approximately U.S. \$30 per barrel and new gas at varying prices up to U.S. \$2.80 per 1000 cubic feet.

Your company is benefiting from these price increases in the U.S. since approximately 20% of our oil and gas sales are now derived from properties South of the border. This percentage will increase in the coming year.

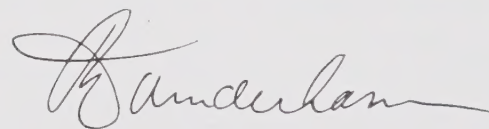
It is expected that the oil and gas industry worldwide will continue to encounter extremely unsettled conditions primarily due to the ability of the O.P.E.C. monopoly to raise the price of oil at will. In Canada and the U.S. this will undoubtedly cause political turmoil and uncertainties for the industry. Despite this we anticipate the coming year for your company to be one of increasing volumes of oil and gas, and increasing prices both in Canada and the United States. With our internally generated and increasing cash flow, augmented by the availability of outside "drilling funds", your company's exploration and land budget will exceed \$8 million which will be the largest in the company's history. The company's unused \$30 million line of credit from its bankers is available for the purchase of producing assets and diversification.

The highlights of the year were:

- 1) commencement of gas production in September 1978 from the Battle Creek field, Montana.
- 2) the completion of the sale of one of the company's U.K. subsidiaries for proceeds of \$1,964,000 and subsequent repayment of our long term debt.
- 3) the successful completion of two large oilwells in the greater Bluebell field, Utah.
- 4) the sale of our Tunisian concession for proceeds of \$714,000 U.S.
- 5) the completion of 3 deep gaswells in Oklahoma.

Your Board of Directors is grateful to its employees, although few in number, who have played an important role in the success of this year's operation.

SUBMITTED ON BEHALF OF THE BOARD
OF DIRECTORS



R. T. M. Vanderham

Earnings and Cash Flow

For the year ended May 31, 1979 net earnings from operations amounted to \$2,034,426 (\$.71 per share) a gratifying increase over the previous year when net earnings amounted to \$1,110,181 (\$.39 per share).

In addition, earnings from extraordinary items of \$2,103,677 (\$.74 per share) were attributable to the sale of foreign properties in the U.K. and Tunisia.

Cash flow from operations amounted to \$5,703,741 (\$2.00 per share) an increase of 66% over \$3,429,813 (\$1.20 per share) in 1978.

Revenue

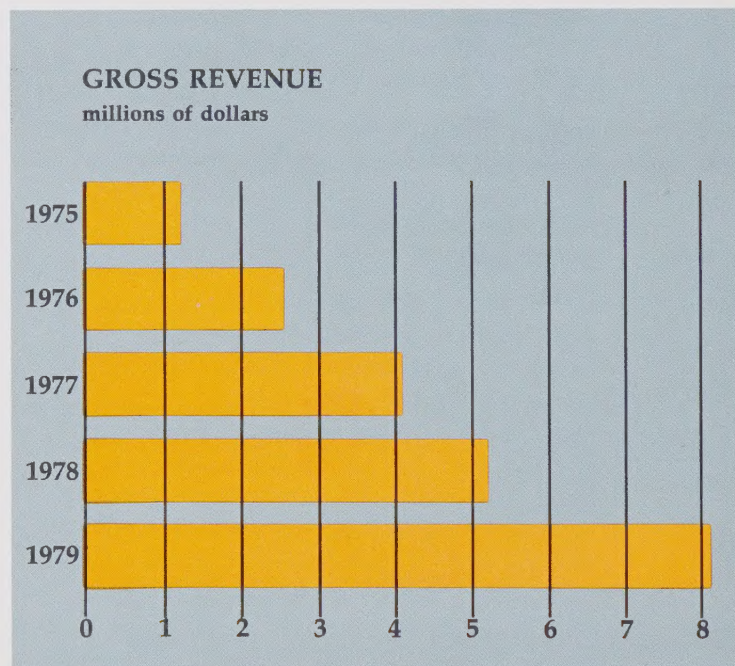
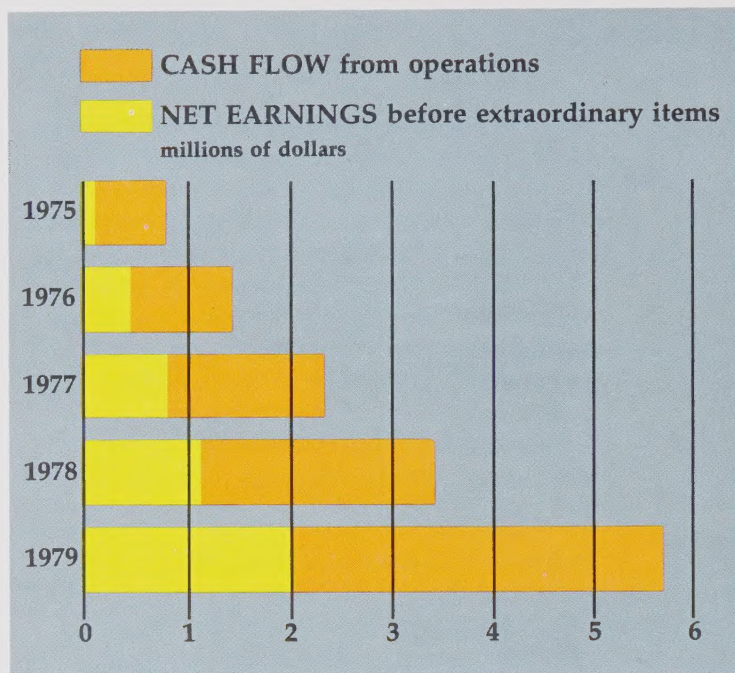
Total revenues for the fiscal year aggregated to \$8,134,409 up 56% over last year's \$5,214,608. The increase in oil and gas revenues is attributed to increased sales volumes of oil and gas and higher wellhead prices. Wellhead prices, in Canada, at year end for natural gas increased to \$1.70 from last year's \$1.34 per Mcf and oil prices similarly increased to \$13.50 from \$11.75 per barrel.

Wellhead prices at year end in the U.S. for natural gas were \$2.30 per mcf and oil prices were \$24.50 per barrel.

Expenses

Increases in general and administrative expense, depletion and depreciation, and operating expenses were commensurate with increases in the company's activities. Interest paid on production loans decreased sharply from \$386,548 to \$206,184, as the loan was paid off during the year. Interest on short term loans increased from \$10,645 to \$109,617, due to cash required for increased exploration activities.

Expenses related to dry holes and abandonments increased to \$1,153,010 as compared to last year's \$756,659, which reflects the company's policy of exploration efforts with higher risk. Under the company's "successful efforts" method of accounting all unsuccessful ventures together with all expenses related to geological and geophysical exploration, including lease rentals, are written off in the year in which they are incurred.

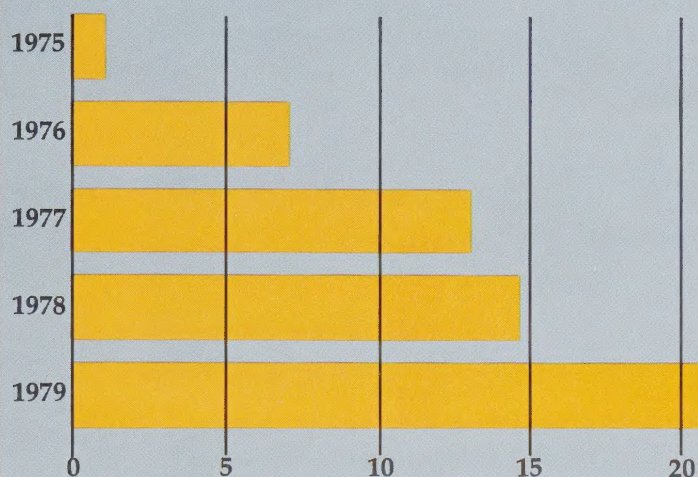


Income taxes

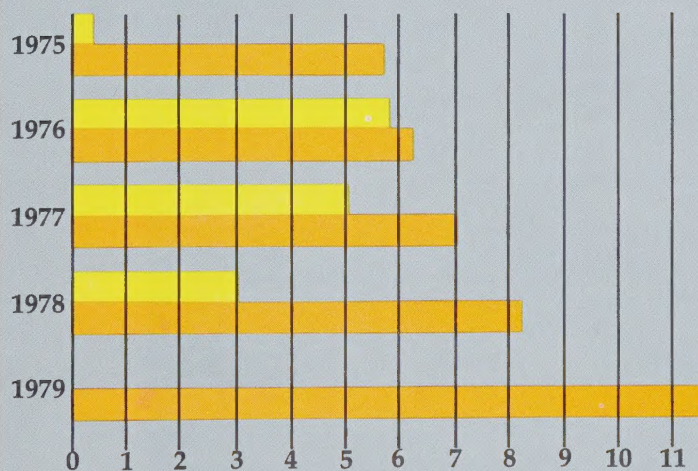
Current taxes are payable by the parent company and its U.S. subsidiary of \$432,478, up from nil in 1978.

For the fiscal period, deferred taxes of \$1,499,503 are up from \$735,000 in 1978.

**RATE OF RETURN
ON SHAREHOLDERS EQUITY**
percent before extraordinary items



LONG TERM DEBT
SHAREHOLDERS' EQUITY
millions of dollars



By virtue of Canadian and U.S. income tax laws, certain expenditures are allowed in calculating taxable income for the current fiscal period, however these expenditures are not recognized for accounting purposes until later years. These timing differences give rise to deferred income taxes.

Capital expenditures

Capital expenditures for 1979 were up from 1978 expenditures, as shown in the following table:

	1979	1978
Land acquisition	\$ 969,404	\$ 693,425
Geological and geophysical . .	261,615	90,685
Dry hole costs . .	891,609	611,471
Drilling costs on successful wells	1,980,718	453,818
Production facilities and equipment . .	1,401,427	663,442
	\$5,504,773	\$2,512,841

Changes in financial position

Working capital decreased to (\$601,357) from \$324,108 in 1978. The decrease is mainly due to increased expenditures for property plant and equipment, extinguishment of our production loan and the payment of a dividend. Working capital is composed mainly of cash, accounts receivable, accounts payable and short term bank borrowings. Accounts receivable doubled due to larger receivables from current production income, and an increase in funds receivable from Provincial Royalty Credit. Short term bank borrowings increased due to cash required for increased exploration. Due to the sound financial condition of your company, all Canadian dollar loans are made at the prime rate and U.S. dollar loans are made at 1/4% over prime.

Dividend

A dividend of \$.25 per share was declared during the year, representing the first dividend declared since our inception.

Outlook for 1979/1980

Keeping in mind the hazards of making a forecast for the coming year and stressing the unpredictability of the marketing of natural gas in Canada it is estimated that earnings for next year will rise to \$1.00 per share and cash flow will increase to \$2.50 per share.

During the year under review Peyto and its subsidiary companies participated in the drilling of 45 wells resulting in 3 oilwells, 24 gaswells and 18 dry holes. In addition, wells drilled by others on leases in which the company holds an interest resulted in 2 oilwells, 1 gaswell and 6 dry holes. Five gaswells were drilled on lands in which the company holds a royalty interest.

At the time of writing 3 wells are drilling and one is suspended awaiting freeze-up.

Geographically 27 wells were drilled in Alberta, 4 in British Columbia, 11 in Montana, 2 in Utah and 1 in Oklahoma, with two 13,000 foot indicated gaswells drilled but not yet tested in Oklahoma since our year end.

Industry-wide exploration in Western Canada continues at a high level resulting in drilling rigs being difficult to obtain and extremely high prices being paid for exploration rights, especially in Alberta and British Columbia. Competition for farmins, where an interest is earned in exploration rights by drilling on leases held by others is intense. This situation is created by increasing prices for oil and gas, and the general energy crisis prevailing worldwide. Western Canada's natural gas surplus continues to increase due to substantial new gas discoveries made in the last 2 - 3 years. This surplus gas is awaiting new export markets in the United States. The Federal regulatory agencies in Canada have officially declared that a surplus of 2 trillion cubic feet of natural gas exists, and now the Canadian Cabinet will have to decide on the allowance of gas export to the United States. Smaller Canadian independent oil and gas exploration companies cannot continue to explore for natural gas and have the newly found reserves shut-in for a number of years. Revenues from gas sales must be obtained to fund continued exploration. Government regulations and controls now almost totally dominate the oil and gas industry at both the Provincial and Federal levels. The quantities which producers are allowed to produce, the prices at which the oil and gas are sold, the Provincial royalties and taxes, the Federal income taxes,

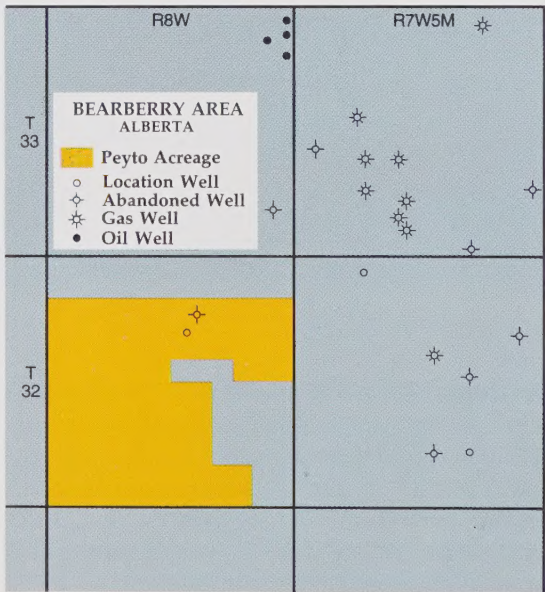
permission to export natural gas etc., all are subject to government control giving the absolute lie to foreign control of Canada's oil and gas industry.

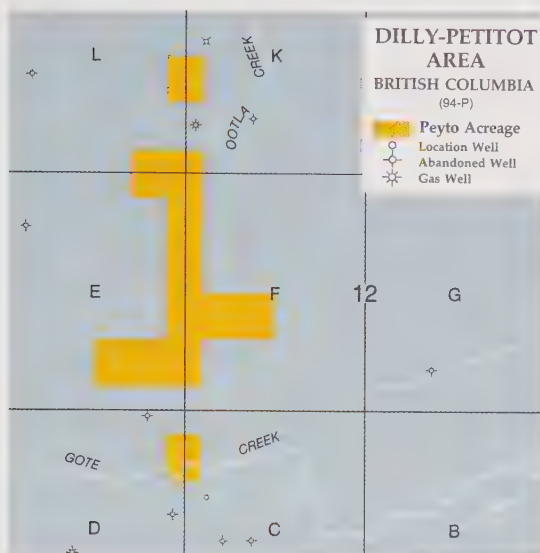
This year our maps highlight some of the new exploration prospects at Bearberry in Alberta, Petitot River in British Columbia and our concession in Cameroon. It is expected that these significant wildcat prospects will be drilled in the coming year.

Exploration and Development

Western Canada

Your Company's exploration in Alberta and British Columbia declined due to strong competition. Development wells were drilled on the Provost oil and gas leases resulting in 2 gaswells, 1 oilwell and 2 dry holes. At Pearson Lake, a further 4 gaswells were completed, bringing the total to 8 gaswells, two of which are being readied for production. Wildcat wells were drilled at Boundary Lake, Neerlandia, Long Coulee, Skaro, Waskahigan, Swan Hills, all in Alberta, and Wildmint and Tooga, British Columbia, all were unsuccessful. At Ferrier, Alberta, one 50% owned well was completed as a gaswell but the company was unsuccessful in purchasing additional leases adjoining this well.





At Bearberry, Alberta, a large drilling rig has commenced a 12,500 foot well to test both Viking and Mississippian formations in this Foothills prospect encompassing a 15,520 acre farmout. Peyto and its drilling fund partner, by paying 25% of the well, will earn a 12.5% interest in 8¹/₄ sections,

with options to drill on 2 additional eight-section blocks. The initial well will take approximately 5 months to reach its target depth and is expected to cost \$3 million.

At Sunchild, Alberta, the company will shortly commence the drilling of a 8500 foot well to test oil possibilities in the Second White Specks formation on 1920 acres of leases.

New prospects are being developed at Leaman and Ferrier, and it is anticipated that a well will be drilled at the company's high priced 2,357 acre drilling reservation at Dilly-Petitot River in British Columbia.

United States

Montana

In September 1978, production commenced from our 18% owned Battle Creek gas field after completion of a gas plant capable of compressing up to 11 million cubic feet of gas per day. 24 wells are tied into the gathering system and our contract calls for



sales of 10 million cubic feet per day. The price at which this production is sold is a good illustration of escalating prices. When the field first went on production on September 25, 1978, we received U.S. \$2.16/Mcf for compressed, pipeline gas. On May 1, 1979 the price advanced to U.S. \$2.30/Mcf. In August 1979 an increase of 50¢/Mcf was granted and another 50¢/Mcf increase to U.S. \$3.30/Mcf is expected before year end. The price increases of this "new" gas are related to the average price of foreign crude oil imported at Portland, Maine.

North Dakota

Developments on the company 75% owned 50,000 acres of leases has been slow. A seismic drilling option agreement was signed by Sante Fe Minerals Inc., of Houston; the optionee has delayed commencement of operations and is in default of the agreement.

Utah

On March 1, 1979 the newly drilled Utex Tribal 1-29C5 was placed on production. Peyto Explorations Inc. paid 72% of the \$1.4 million well. Initial production was a rate of 650 barrels of oil per day and ¾ million cubic feet of gas. In August this well averaged 456 barrels per day. A second well, Utex Tribal 1-21C5 was placed on production May 20, 1979, and this well averaged 550 barrels of oil per day in August. Your company holds a 10% interest in this latter well.

The price of this "new" oil is deregulated under U.S. law and is U.S. \$28.50 per barrel. It is expected this price will rise to \$30.50 in September. However, in the U.S. an excise tax on crude oil is proposed and undoubtedly will pass. President Carter has proposed to tax at 70% all price increases over \$17/barrel. There is a possibility that small producers may become exempt from this tax.

Oklahoma

Your company now has a total of 3 completed gaswells in Canadian County. All

3 are expected to be on stream before year end. One of the wells is already under gas contract where the "pay or take" provisions went into effect May 1. These wells were drilled to the Hunton formation at 12,500 feet. The first well has potential of 7.826 million cubic feet of gas per day, plus 45 barrels of condensate and recorded a flowing bottomhole pressure of 6,520 p.s.i. The other 2 wells have not been tested as yet. A fourth well will be commenced shortly. Peyto's interest in these wells varies from 10% to 15%.

California

Your company (13⅓% working interest) as a member of a group of companies was successful in its bid on parcel #31, a 5,000 acre lease tract in the Santa Barbara Channel. The Federal sale was the first held in the Channel since 1968. Several very large oilfields have been discovered in the Channel and the tract has potential for a large accumulation of oil. Adjoining tracts sold for up to \$1,000/acre. It is hoped to attract other companies to drill this deep water prospect.

Further south — Offshore California, efforts are continuing to have others drill on company owned leases in the Santa Rosa Basin.

Texas

Your company (20% working interest) will shortly participate in the drilling of an exciting 14,000 foot Vicksburg test on the Nueces Bay prospect, outside Corpus Christie, Texas. The company holds an option to drill a 11,500 foot Vicksburg test on the same block. The 2 prospects are separated by a large fault.

Australia

Exploration activity continued on our two five million acre permits Offshore Northwest Australia in which Peyto owns a 15% interest.

Permit WA 68-P, containing 5 million acres, was farmed out to Cluff Oil of the U.K. Cluff has fulfilled its seismic obligation and we

are awaiting the results. Cluff has an option to drill on the block to increase its interest from 20% to 60% in the permit.

On Permit WA 62-P, a seismic survey was completed earlier in the year and a large and promising geologic structure has been outlined. Attempts are being made to have larger companies commit to drill a well to test this structure. The cost of the initial well will be approximately \$5 million.

Cameroon

Both Gulf and Shell have completed their seismic survey obligations and Shell has notified the farmers that it intends to exercise its option to drill a well on the concession. The first well is planned for the

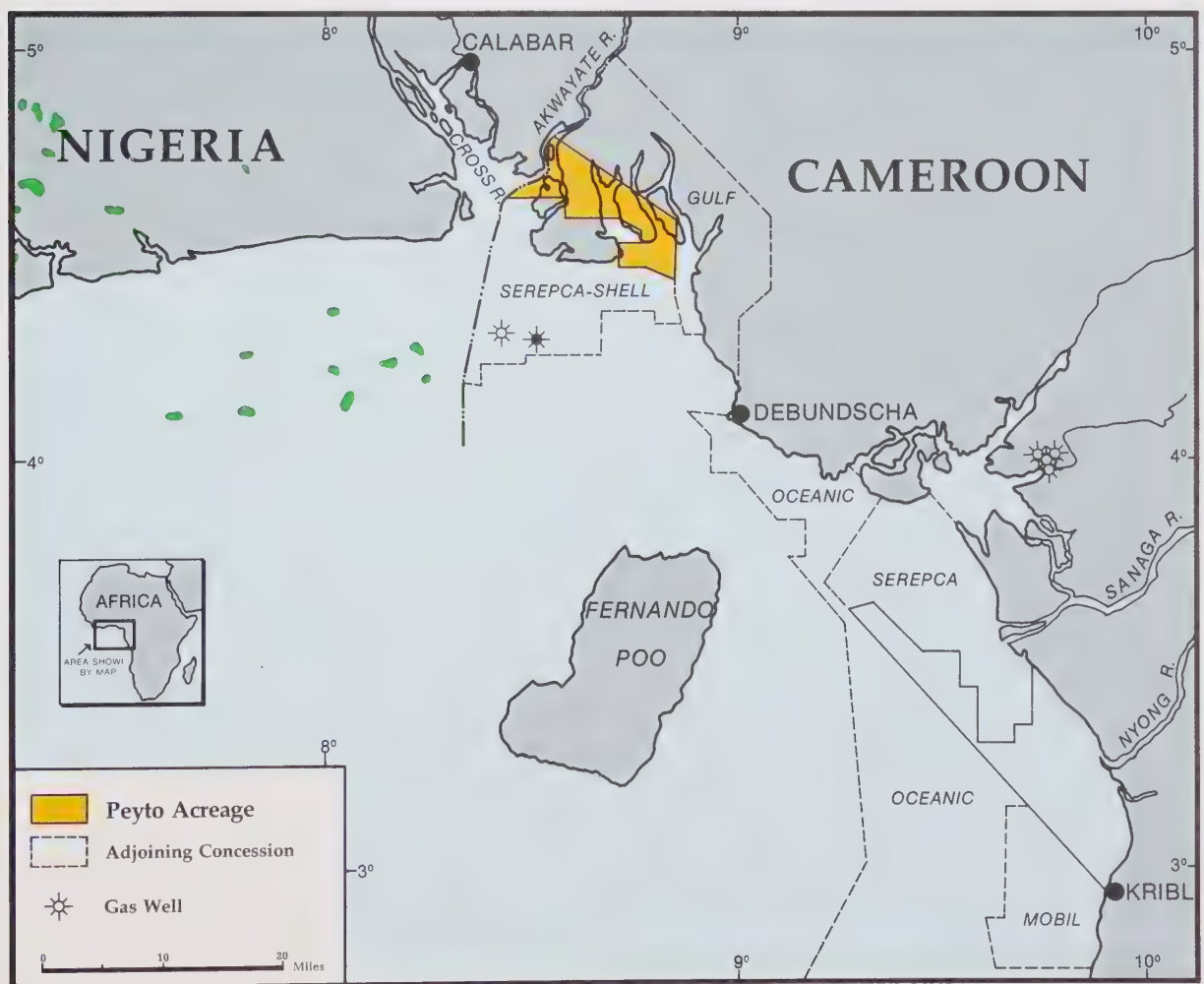
second quarter of 1980. Peyto retains a 1.6875% interest in this 185,200 acre tract.

U.K. Offshore

As reported earlier, Peyto Oils (U.K.) Ltd., which held an interest in Block 3/7 adjoining the Ninian oilfield in the North Sea, was sold to the British National Oil Company and Deminex (the German equivalent to PetroCanada) for \$1,963,902.

Tunisia

Also disposed of was the company's 1.7855% interest in the one million acre concession in Tunisia to British Petroleum for the sum of \$714,320 U.S., of which \$178,580 U.S. is payable December 31, 1980.





Oil and natural gas liquid production volumes increased during the year to 894 barrels (142 m³) per day compared to last year's 824 barrels (130 m³) per day. Natural gas production increased more dramatically to 9.3 million cubic feet (260 10³m³) per day from 6.9 million cubic feet (197 10³m³) per day. Total volumes produced during the year were 327,000 barrels of oil and 3.384 billion cubic feet of gas. The increase in oil production is due to our Utah wells coming on stream in March and an increase in liquid production from the Quirk Creek plant. These liquids are a by-product of natural gas production which increased due to higher nomination from the buyer. Battle Creek gas production, which commenced in September 1978, also made a sizable contribution. Despite higher nomination at Quirk Creek the buyer was still contractually obligated to pay the company \$150,000 for gas not taken. This gas will be delivered to the buyer over the next five years. These funds are shown on the Liability side of the balance sheet as "deferred revenue".

Gas production at Lacombe, Provost and Neptune was again somewhat curtailed this year due to natural gas being in a surplus position in Western Canada. This curtailment will again prevail during the coming year.

Gas production at Battle Creek, Montana, has been steady at an average of 10 million cubic feet per day. We expect to cut back this production somewhat for conservation purposes.

The operator of the company's gas reserves at Seebe Ghost has completed the gas plant study and site selection. Estimated cost of the plant and gathering system is \$12 million. The plant will have a capacity to process 23.5 million cubic feet of gas per day. Peyto will have an approximate 2% interest in the plant. Construction of the plant will await gas export approval.

The value of the assets of an oil company are difficult to determine from the balance sheet. Items such as "property, plant and equipment" reflect the historic cost of successful wells, pumps, tanks, flowlines, gas plants, etc., plus the cost of petroleum and natural gas leases and licenses. They bear little relationship to the reserves of oil and gas producible through such facilities. In order to inform our shareholders more fully on the reserves owned by your company, an outside independent reservoir consultant, McDaniel Consultants (1965) Ltd., is engaged to evaluate the company's existing reserves, together with any new addition to reserves found during the year under review. The reserve estimates are revised yearly, upwards or downwards depending on the performance of the wells and the forecast of prices for oil and gas. Obviously at higher prices the economic life of a well is prolonged and more hydrocarbons are ultimately produced during the longer period. It is customary in the oil industry to discount the value of the cash flow over its life. Since the revenues from the sale of the reserves occur over a 20 year period, the current value of funds received in the 20th year is extremely small. Using different discount factors which coincide with what an investor decides his investment should earn yearly, expressed as a percentage, the present worth of an asset is determined. Income taxes have not been taken into account in these values since income taxes are greatly influenced by future exploration expenditures. Following are the actual reserve and cash flow figures as of May 31, 1979 of the company's proven and probable reserves. Probable reserves are valued at 25% of proven reserves. All shut in gas reserves are deemed to come on stream in 1983. Prices of oil and gas are escalated at estimated rates, as are operating costs and capital expenditures required to maintain production.

	Gross Revenue	Royalties	Operating Expenses	Capital Costs	Net Revenue
Reserves (before royalty)					
Oil — 5,003,649 bbls.	\$388,672,000	\$101,901,000	\$84,260,000	\$6,361,000	\$196,150,000
Gas — 65,323,718 Mcf					
Sulphur — 146,219 tons					

Metric

Oil — 800 584 m ³	Net Revenue discounted at:				
Gas — 1 829 064 10 ³ m ³	0%	12%	15%	18%	
Sulphur — 143 352 tonnes	\$196,150,000	\$60,146,000	\$50,873,000	\$44,065,000	

PEYTO OILS LTD.**Consolidated Balance Sheet May 31, 1979**

(with comparative figures for 1978)

Assets	1979	1978
Current assets:		
Cash	\$ —	340,547
Deposit receipts, including accrued interest	713,079	503,886
Accounts receivable	1,779,867	837,006
Prepaid expense	17,944	—
Total current assets	2,510,890	1,681,439
Property, plant and equipment, at cost		
(Notes 2 and 3)	19,250,129	15,252,791
Less accumulated depletion and depreciation	4,184,896	2,989,094
	15,065,233	12,263,697
Other assets:		
Agreement for sale due December 1980	212,152	—
Investments, at cost less amounts written-off (quoted market value \$164,543; 1978 — \$100,033)	108,799	108,799
Other investments, at cost less amounts written-off (no quoted market value)	84,845	77,226
Sundry	144,165	160,022
	549,961	346,047
	\$18,126,084	14,291,183

See accompanying notes.

Liabilities

	1979	1978
Current liabilities:		
Demand bank loans (Note 3)	\$ 1,902,533	376,720
Accounts payable and accrued liabilities	1,043,321	980,611
Income taxes payable	166,393	—
Total current liabilities	3,112,247	1,357,331
Bank loan	—	3,050,000
Deferred revenue	150,666	46,437
Deferred income taxes	2,977,894	1,478,391
Minority interest in subsidiary company	309,216	207,921
Shareholders' equity:		
Share capital (Note 4):		
Shares without nominal or par value.		
Authorized 6,000,000 shares; issued		
2,854,583 shares	6,326,962	6,326,962
Retained earnings	5,249,099	1,824,141
	11,576,061	8,151,103
	\$18,126,084	14,291,183

Approved on behalf of the Board:

R. T. VANDERHAM, Director

W. WOLODARSKY, Director

PEYTO OILS LTD.

Consolidated Statement of Earnings Year ended May 31, 1979

(with comparative figures for 1978)

	1979	1978
Revenue:		
Oil and gas	\$6,940,570	5,037,887
Interest earned	56,150	60,575
Management and other income	1,094,683	105,634
Gain on sale of properties	43,006	10,512
	8,134,409	5,214,608
Expenses:		
Production	1,664,271	1,228,633
Lease rentals	133,090	54,425
Geological and geophysical	261,615	90,685
General and administrative	381,617	310,729
Interest — long term	206,184	386,548
— short term	109,617	10,645
Depletion	728,116	552,120
Depreciation	472,390	314,572
Dryholes and abandonments	1,153,010	756,659
	5,109,910	3,705,016
Earnings before income taxes, minority interest and extraordinary items	3,024,499	1,509,592
Income taxes:		
Current	276,031	—
Deferred	1,071,510	735,000
Province of Alberta Royalty Credit	(419,993)	(307,382)
	927,548	427,618
Earnings before minority interest and extraordinary items	2,096,951	1,081,974
Minority interest in earnings (loss) of subsidiary	62,525	(28,207)
Earnings before extraordinary items	2,034,426	1,110,181
Extraordinary items		
Gain on sale of foreign investments (Note 5)	1,949,527	—
Reduction in income taxes due to application of loss carry forward from prior years	154,150	—
	2,103,677	—
Net earnings	\$4,138,103	1,110,181
Earnings per share:		
Before extraordinary item	\$.71	.39
Net earnings	\$ 1.45	.39

See accompanying notes.

PEYTO OILS LTD.

Consolidated Statement of Changes in Financial Position Year ended May 31, 1979 (with comparative figures for 1978)

	1979	1978
Working capital was provided from:		
Earnings before extraordinary items	\$2,034,426	1,110,181
Add items not requiring an outlay of funds	3,669,315	2,319,632
Working capital provided from operations	5,703,741	3,429,813
Increase (decrease) in deferred revenue	104,229	(72,963)
Issue of share capital	—	60,985
Proceeds on sale of properties	84,488	12,862
Proceeds on sale of foreign investments net of current income taxes of \$393,585	2,398,104	—
Decrease in notes receivable	21,615	—
	8,312,177	3,430,697
Working capital was used for:		
Property, plant and equipment	5,243,159	2,422,156
Decrease in bank loan	3,050,000	1,950,000
Increase in other investments	7,620	74,948
Increase in agreement for sale	212,152	—
Purchase of additional shares in subsidiaries	2,844	3,764
Dividend paid	713,145	—
Increase in advance to affiliated company	8,722	26,166
	9,237,642	4,477,034
Decrease in working capital	925,465	1,046,337
Working capital, beginning of year	324,108	1,370,445
Working capital (deficiency), end of year	\$ (601,357)	324,108

Consolidated Statement of Retained Earnings Year ended May 31, 1979 (with comparative figures for 1978)

	1979	1978
Retained earnings, beginning of year	\$1,824,141	713,960
Net earnings	4,138,103	1,110,181
	5,962,244	1,824,141
Dividend paid	713,145	—
Retained earnings, end of year	\$5,249,099	1,824,141

See accompanying notes.

Notes to the Consolidated Financial Statements
May 31, 1979

1. Significant accounting policies:

(a) Principles of consolidation:

The consolidated financial statements include the accounts of all wholly-owned subsidiary companies and an 82% held subsidiary, Giant Reef Petroleums Limited.

The excess of the purchase price of the shares of Giant Reef Petroleums Limited over the underlying net book values, at dates of acquisition, has, on consolidation, been added to the cost of developed oil and gas properties and is being depleted on the unit-of-production method.

(b) Petroleum and natural gas properties:

The company follows the successful efforts method of accounting for costs of oil and gas properties. The costs of drilling and equipping successful wells are capitalized. Lease acquisition costs are capitalized and are subsequently expensed in the year of disposal, abandonment or surrender. All other exploration costs, including lease carrying costs, geological and geophysical costs and drilling costs of unsuccessful wells are expensed.

Lease and well equipment and gas plants are being depreciated on the composite unit-of-production method. A subsidiary company's gas plant is being depreciated on the straight-line basis using a rate of 5% per annum.

(c) Income taxes:

The company follows the tax allocation basis of accounting for all timing differences between net earnings and taxable income.

(d) Joint ventures:

The majority of the company's exploration and production activities related to oil and gas are conducted jointly with others and accordingly the accounts reflect only the company's proportionate interest in such activities.

(e) Deferred revenue:

Payments received for undelivered gas are deferred and are taken into income when deliveries are made or the make-up period expires.

(f) Foreign currency translation:

Accounts of a foreign subsidiary are translated to Canadian dollars. Current assets and liabilities are translated at year end rates of exchange. Non-current assets and liabilities are translated at rates in effect when acquired or incurred. Income accounts are translated at average rate in effect throughout the year. Gains or losses on translation of foreign currencies, though not material, are included in net earnings.

(g) Comparative figures:

Certain of the 1978 comparative figures have been reclassified to conform with the financial statement presentation in 1979.

2. Property, plant and equipment:

	1979		1978	
	Assets at cost	Accumulated depreciation and depletion	Net	Net
Developed oil and gas properties and equipment thereon	\$14,373,692	3,207,340	11,166,352	8,703,316
Gas plants	3,188,421	977,556	2,210,865	1,933,612
Undeveloped oil and gas properties	1,688,016	—	1,688,016	1,626,769
	\$19,250,129	4,184,896	15,065,233	12,263,697

3. Demand bank loans:

The bank loans which are payable on demand bear interest at rates ranging from bank prime rate to $\frac{1}{4}\%$ above bank prime rate and are secured by assignments of the company's interest in certain oil and gas properties and general assignments of accounts receivable.

4. Share capital:

At May 31, 1979 the company has reserved 10,300 shares for employee stock options. The options are exercisable at a price of \$2.485 per share expiring on September 5, 1979 or 60 days after termination of employment whichever comes first. No options were granted or exercised during the year.

Under a drilling program agreement, the company has granted options to purchase up to 150,000 shares at a price of \$5.50 per share. The options have been extended to expire on December 30, 1980.

5. Extraordinary item:

During the year the company sold its interest in certain foreign resource properties for an aggregate consideration of approximately \$2,791,700 realizing a gain of \$1,949,527 net of income taxes of \$750,000 and minority interest of \$36,450.

6. Remuneration of directors and officers:

The aggregate remuneration paid to senior officers (as defined by The Companies Act, Alberta, which term includes the five highest paid employees of the company) during the year amounted to \$142,725 (1978 — \$136,970). No remuneration was paid to directors as such.

Auditors' Report to the Shareholders

We have examined the consolidated balance sheet of Peyto Oils Ltd. as at May 31, 1979 and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at May 31, 1979 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Calgary, Canada
August 31, 1979

Peat, Marwick, Mitchell & Co.
Chartered Accountants

5 YEAR SUMMARY

	1979	1978	1977	1976	1975
REVENUES					
Oil & Gas Sales	\$ 6,940,570	\$ 5,037,887	\$3,880,448	\$2,270,915	\$ 913,757
Other Income	1,193,839	176,721	209,614	200,735	359,289
Total	8,134,409	5,214,608	4,090,062	2,471,650	1,273,046
EXPENSES					
Operating	1,664,271	1,228,633	927,847	590,519	240,549
Lease rentals	133,090	54,425	45,246	38,152	45,718
Geological & Geophysical	261,615	90,685	12,137	—	—
General & Administration	381,617	310,729	240,073	219,840	165,680
Interest — long term	206,184	386,548	625,166	312,109	66,901
— short term	109,617	10,645	—	—	—
Depletion & Depreciation	1,200,506	866,692	761,941	479,387	245,612
Dry holes & abandonments	1,153,010	756,659	209,409	221,047	262,587
	5,109,910	3,705,016	2,821,819	1,861,054	1,027,047
EARNINGS (loss) before income taxes, minority interest & extraordinary items	3,024,499	1,509,592	1,268,243	610,596	245,999
INCOME TAXES					
Current	276,031	—	58,000	—	—
Deferred	1,071,510	735,000	498,000	266,354	165,525
Prov. of Alta. Royalty Credit	(419,993)	(307,382)	(216,118)	(130,490)	(47,721)
	927,548	427,618	339,882	135,864	117,804
EARNINGS (loss) before minority interest & extraordinary items	2,096,951	1,081,974	928,361	474,732	128,195
Minority interest on earnings (loss) of subsidiary	62,525	(28,207)	70,447	38,907	57,048
EARNINGS (loss) before extraordinary items	2,034,426	1,110,181	857,914	435,825	71,147
Extraordinary items	2,103,677	—	(121,900)	38,051	111,861
NET EARNINGS (loss)	4,138,103	1,110,181	736,014	473,876	183,008
Net earnings/share					
Before extraordinary items	.71	.39	.30	.16	.02
Extraordinary items	.74	—	(.04)	.01	.04
	1.45	.39	.26	.17	.06
BALANCE SHEET ITEMS					
Working capital (deficiency)	(601,357)	324,108	1,370,445	1,088,975	2,363,627
Investments	193,644	186,025	188,374	317,472	476,803
Property plant & equipment (net)	15,065,233	12,263,697	11,462,232	11,017,579	3,490,352
Production loan	—	3,050,000	5,000,000	5,830,000	370,000
Deferred income taxes	2,977,894	1,478,391	743,391	245,391	25,003
Minority interest	309,216	207,921	237,896	167,449	233,184
Shareholders equity	11,576,061	8,151,103	6,979,937	6,205,423	5,726,080
Retained earnings (deficit)	5,249,099	1,824,141	713,960	(22,054)	(495,930)
Shares outstanding	2,854,583	2,854,583	2,843,583	2,833,583	2,831,383
No. of shareholders	1,244	1,311	1,460	1,425	1,447
Share volume	n/a	2,187,854	2,409,367	1,766,710	1,206,795
\$ Value of shares traded	n/a	1,852,124	19,096,217	8,551,879	4,421,874

	1979	1978	1977	1976	1975
CHANGES IN FINANCIAL POSITION					
Sources of funds					
Earnings before extraordinary items	2,034,426	1,110,181	857,914	435,825	71,147
Add items not affecting working capital	3,669,315	2,319,632	1,483,730	969,431	729,527
Working capital provided from operations	5,703,741	3,429,813	2,341,644	1,405,256	800,674
Increase (decrease) in deferred revenue	104,229	(72,963)	119,400	—	—
Issue of share capital	—	60,985	38,500	5,467	—
Proceeds from bank loan	—	—	—	5,580,000	—
Proceeds on sale of property & investments	2,482,592	12,862	82,652	249,253	13,051
Decrease in other assets	21,615	—	—	—	—
	8,312,177	3,430,697	2,582,196	7,239,976	813,725
Use of Funds					
Property, Plant & Equipment	5,243,159	2,422,156	1,435,390	8,095,710	659,144
Decrease in bank loan	3,050,000	1,950,000	830,000	120,000	234,000
Increase in other assets	228,494	74,948	35,336	54,410	—
Purchase of additional shares in Subsidiaries	2,844	3,764	—	244,508	6,386
Dividend paid	713,145	—	—	—	—
	9,237,642	4,450,868	2,300,726	8,514,628	899,530
Increase (decrease) in Working Capital	(925,465)	(1,020,171)	281,470	(1,274,652)	(85,805)
Working Capital beginning of year	324,108	1,370,445	1,088,975	2,363,627	2,449,432
Working Capital end of year (deficiency)	(601,357)	350,274	1,370,445	1,088,975	2,363,627
	1979	1978	1977	1976	1975
Proven Oil and Condensate	3,497,000	3,460,628	3,639,980	3,945,682	
Probable Oil and Condensate	1,506,000	1,757,478	2,065,238	2,574,853	
Total in barrels	5,003,000	5,218,106	5,705,218	6,520,537	n/a
Average Daily Production					
Bbbls./Day	894	824	856	n/a	
Proven Gas	50,922	49,252	49,531	42,330	
Probable Gas	14,400	13,114	13,961	11,201	
Total in MMcf	65,322	62,366	63,492	53,531	n/a
Average Daily Production					
MMcf/Day	9.3	6.9	6	n/a	
Proven Sulphur	87,000	114,810	110,393	93,305	
Probable Sulphur	59,000	55,514	56,651	56,905	
Total in Long Tons	146,000	170,324	167,044	150,210	n/a
Gross Wells Drilled	45	43	21	20	13
Oil and/or Gas	27	25	13	11	9
Dry and abandoned	18	18	8	9	4
No. of employees	5	5	6	5	4
Land Holdings					
Canada — Gross Acres	n/a	1,484,139			
— Net Acres	n/a	177,775			
Elsewhere — Gross Acres	n/a	11,429,820			
— Net Acres	n/a	1,111,497			
Total — Gross Acres	n/a	12,913,959			
— Net Acres	n/a	1,289,272			

For Evaluation SEE PRODUCTION SECTION McDaniel Consultants (1965) Ltd., Calgary.

***not inclusive of 33,500 MMcf attributable to the revenues allocated to Turner Valley Gas Plant from which 20¢/Mcf is collected when processed.*

Peyto Oils Ltd.

